

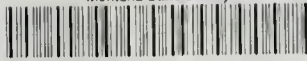
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REPORT TO THE 49th LEGISLATURE

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REPORT TO THE 49th LEGISLATURE

January 1985



State of Montana
Office of the Governor
Helena, Montana 59620

TED SCHWINDEN
GOVERNOR

TO THE MEMBERS OF THE 49th LEGISLATURE:

Two years ago, the 48th Legislature saw fit to approve a number of programs packaged under the title "Build Montana." This broad and bold initiative represented an effort by the people of this state to regain control of their economic destiny.

Build Montana is the most aggressive highway construction and reconstruction program in decades. It is a block grant program for local governments, a labor training program that benefits both dislocated workers and employers, and a series of economic development and development finance programs for business. It is an outgrowth of I-95 -- the 1982 voter-passed initiative to invest a portion of the state's Coal Tax Trust Fund in the Montana economy. It is the combined wisdom of hundreds of Montanans who gave thousands of hours of their time to formulate the program.

This report is a summary of our progress to date. Build Montana is not over; in fact, it's just beginning. Someone once said that success is a journey, not a destination. I can't think of a better description of our shared hope for a successful economic development effort.

Sincerely,

A handwritten signature in black ink, appearing to read "Ted Schwinden", written over a horizontal line.

TED SCHWINDEN
Governor

DEDICATION

This report is about a new partnership between business and government.
It is dedicated to Gary Buchanan, with grateful appreciation,
for providing the leadership and enthusiasm to make it happen.

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MONTANANS FAVOR ECONOMIC GROWTH

In 1982, Montana was still in the grip of a severe national recession. More than 8.5 percent of the state's civilian labor force was unemployed. Business closures were averaging 15 a month, compared with two or three a month in 1980. Plant closures and layoffs between 1981 and 1982 had resulted in the loss of roughly 6,000 primary jobs in the state.

While Montana, like other states, was vulnerable to national economic and world market conditions over which we had little control, Montanans still felt that it was time to set a course for economic growth and regain control of our economic destiny. According to the June 1982 Montana Poll, 91 percent of Montanans wanted their economy to grow over the next five years. In November of that year, by a margin of 71 percent, Montana passed I-95 — the initiative to spur economic development by investing 25 percent of the coal tax trust fund receipts in the Montana economy. Since that time, several hundred Montanans have responded to the challenge to strengthen our state economy by volunteering their time and wisdom to a number of groups that actually formed the substance of the Build Montana program. Montanans have not only participated in, but helped finance, a number of programs whose policies and recommendations are the foundation of Build Montana.

First, there was the Montana Economic Development Project, a \$100,000 project whose aim was to identify and analyze economic development opportunities for Montana. The project was funded entirely by the private sector. Among its recommendations were: creation of an economic advisory council; reduction of government red tape; implementation of development finance programs for Montana small businesses; increased tourism promotion; accelerated highway construction and improvements, and formal linkage between our university system and state economic development efforts, to name just a few. The 1983 Legislature saw fit to enact these recommendations and all are now in place.

Next came the Governor's Council on Management, when 34 Montana executives took three months away from their own firms to come to Helena and analyze the day-to-day workings of state government from a professional management viewpoint. This project was also financed by the private sector. Their recommendations for improving the management of state government have resulted in an annual savings of roughly \$20 million to the taxpayers of this state.

Another private sector effort is the Montana Ambassadors, a group of business leaders from around the state who are lending their time and resources to help the state achieve its goals in the areas of business recruitment, tourism development and Montana product promotion. This group, too, is funded entirely by private sources and requires a tremendous commitment from each member.

Other groups that convened in an effort to begin solving some of Montana's economic problems included the Small Business Council, the Tourism Advisory Council, the Transportation Advisory Council, the University Committee on Economic Development and the Ad-Hoc Committee on Agriculture.

Build Montana is not just another government program. It is the product of a partnership between state government and the private sector. In his first State of the State Address — in January 1981 — Governor Schwinden pledged to reduce the adversary relationship between business and government in this state. Decades of hostility between the two sectors had hindered economic growth. The response of the private sector to state initiatives over the past four years has been more than gratifying. It is the reason for the success of Build Montana to date. The state can play only a limited role in economic development. Only the private sector can create jobs. Revitalization of the Montana economy depends on the energy and initiative of Montanans, and judging from the initiative demonstrated to date, Montanans are well on their way to building — for the first time — a positive economic development program for our state.

THE STATE'S ROLE IN ECONOMIC DEVELOPMENT

The state has been in the economic development business since 1935, when the legislature created the Montana State Planning Board to stimulate agricultural development. Later economic development efforts were housed in the Department of Planning and Economic Development, then within a division of the Department of Intergovernmental Relations, then within two divisions of the Department of Community Affairs, and later in the Governor's Office of Commerce and Small Business Development.

Not until 1981 did the state merge all business-related programs under one roof — the new Department of Commerce — and devote the needed resources to this critical state function.

Historically, economic development had been one of the smallest programs maintained by the state. Staff ranged from one to five professionals. Most, if not all, emphasis was placed on the recruitment of new business and industry to the state.

In 1981, economic and community development, tourism and transportation programs from throughout the executive branch were consolidated into one new department, along with two former cabinet-level regulatory agencies — the Department of Business Regulation and the Department of Professional and Occupational Licensing.

The goals set forth by Governor Schwinden in creating the new department were:

- To integrate economic development, transportation and community development programs;
- To reduce the adversary relationship between government and business;
- To consolidate and streamline business licensing and regulation;
- To improve the state's business image, and
- To develop and implement a unified policy to foster stable, diversified economic development.

At the same time, other state agencies began tailoring their programs to meet these goals. The foundation for Montana's first full-scale, statewide, economic development effort is now firmly in place. Programs range from highway construction and local government assistance to business assistance and development finance, and all are linked by the underlying philosophy that the state won't attract significant outside investment unless its existing business community is strong and healthy. The nation's worst recession in decades has made this effort all the riskier, and all the more imperative.

BUSINESS ASSISTANCE PROGRAMS

Between 1980 and 1981, the number of Montanans who were self-employed in nonfarm activity increased dramatically, from 37,000 to 49,000, according to the Montana Department of Labor and Industry. The state's nonfarm self-employed sector has never been larger. Nationally, skilled workers (particularly in the 45-year and older age group) who suffered layoffs during the recession have gone into business for themselves, selling the knowledge, skills and abilities they developed in their previous jobs and professions. Presumably, Montanans have followed the same trend.

This rise in self-employment caused a net increase in employment between 1980 and 1983 — the worst years of the recession. While basic industry employment in Montana decreased 9 percent and derivative or secondary industry employment decreased 1.2 percent, all other employment jumped 70.2 percent for a total net gain of 3.5 percent, or 12,000 people.

This basic, structural change in employment in Montana is reflected in fewer traditional jobs in the wood products, mining and smelting industries, railroads and the federal government, and more numerous jobs in the retail trade and service industries.

Montana's economy is also being transformed by the number of women who have entered the labor market and by the number of women who have started their own businesses. Female participation in Montana's labor force has risen from 25.2 percent in 1950 to 49 percent in 1980. Civilian labor force participation rates in 1983 were 79 percent for males and 53.9 percent for females. Montana Census data lists 5,957 self-employed females in 1970, and 8,758 in 1980. This is an increase of 47 percent, compared with a 6.7 percent change in the same category for all employed persons.

This growing number of women-owned businesses, entrepreneurs and self-employed persons will continue to make Montana a state of small businesses. According to the *Wall Street Journal* (Jan. 11, 1984), only one state — Wyoming — has more small businesses per capita than Montana.

It is these small businesses — the foundation of Montana's economy — that the expanded Business Assistance Division set out to assist two years ago. These are the businesses that need and can benefit from programs like the University Center for Business and Management Development, the Business Development Assistance Program, the Small Business Advocate, and the "Made in Montana" product promotion campaign.

People helping people is the name of the game. Your people have helped me a great deal, for which I am grateful.

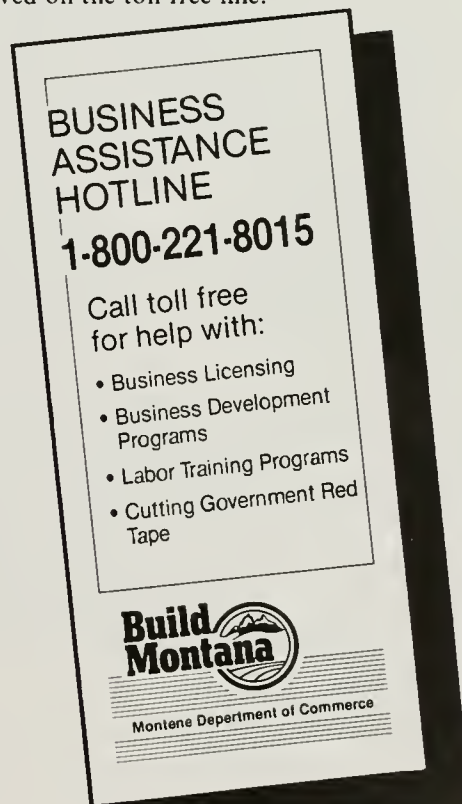
George Hamblin, President
Hamblin Manufacturing Co.
Deer Lodge

Small Business Advocate

The Small Business Advocate is an expansion of the State's Business Licensing Center, which was authorized by the 1981 Legislature. Its expanded functions are:

- To cut government red tape for small business owners by resolving questions, complaints or problems they may have in dealing with local, state and federal bureaucracies;
- To assist prospective business owners in meeting licensing, permitting and regulatory requirements, and
- To promote small business development by serving as a clearinghouse for information on funding sources, training opportunities and other business-related concerns.

The Center has an in-state, toll-free telephone number for convenient access by Montana's business community. From July 1, 1983, through September 1984, the Center responded to nearly 2,000 business-related inquiries, 1,600 of which were received on the toll-free line.



A typical call to the licensing center is from someone wishing to get started in business. If, for example, the new business were a convenience store and gas station, the owner needs to obtain six licenses before opening the door: a store license, a cigarette license and a beer and wine license, all from the Department of Revenue; a food purveyor's license, from the county health department, and a petroleum dealer's license and a weighing device license, both from the Department of Commerce. In addition, the owner has to meet certain state and federal requirements before hiring employees, and register the business name with the Secretary of State. In most cases, one phone call to the licensing center will take care of all these licensing needs. If the center cannot supply the caller with all of the needed forms and applications, however, the Small Business Advocate will arrange to have the appropriate licensing authorities send the necessary forms.

The Business Development Assistance Program provided much needed technical assistance at a critical time. Through the program, we developed a cost-control system and a time-study system that enabled us to make the transition from a mom 'n' pop operation to a successful small business. Our growth is a direct result of the expertise provided by the state.

Haven Holsapple, President
Expeditions International
Hamilton

Business Development Assistance

The Business Development Assistance program was expanded by the 1983 Legislature to increase the state's capacity to provide technical assistance and information to small businesses, particularly small manufacturers. Its goals are to increase employment and production by assisting businesses in planning and preparing for new or expanded production, and to retain existing businesses that are experiencing difficulties with current operations.

Technical information includes training opportunities, federal contract leads and sources of loan and grant funds. Technical assistance is provided in the fields of management assistance, market research, product research and development, new venture analysis, facility planning, financial packaging and engineering assistance. If department staff does not have the needed expertise for a given project, technical assistance is provided by contracting with professional consultants. For example, a marketing study for a beef processing firm expanded the firm's existing retail markets to include fundraisers and national organizations. A small firm that specializes in yarn and woolen goods is now linked with a national sales representative as a result of another marketing contract.

Since July 1, 1983, this program has provided 22 Montana businesses with professional technical assistance and 125 firms with personal staff assistance. A composite analysis of 13 of the 22 professional contracts revealed an overall sales

increase for these 13 firms of \$2,732,000 and the addition of 117.5 jobs to the Montana economy.

This program is also responsible for assisting Montana businesses in securing federal government procurement contracts. Direct technical assistance contracts have helped six firms in assembling bids for government contracts.

International Export Assistance

This program is designed to enhance the marketability of Montana's manufactured and agricultural products. The program offers direct, one-stop technical assistance to small businesses wishing to enter foreign markets. Montana's international trade efforts are focused primarily on Canada and the nations of the Pacific Rim.

Significant activities of the International Export Assistance programs since July 1, 1984 include:

- Installation of a telex communications system for use by the state and individual manufacturers;
- Consultation with 75 Montana firms on the mechanics of exporting and advising them of market opportunities. Often this consists of providing manufacturers with names of specific foreign buyers that are obtained through foreign trade associations;
- Initiation and organization of a trade mission to Edmonton and Calgary, Alberta;
- Participation in two major, international trade shows: CANTRADE in Edmonton, Alberta, and the Pacific Northwest World Trade Expo in Tacoma, Washington;
- Hosting of procurement missions from Korea, Taiwan, and Japan, and executives from the Long Term Credit Bank of Japan.

We've only been in business since July 1984, but already the Commerce Department's marketing assistance program has helped us in so many ways. We now have an overseas distributor as a result of a trade show in Seattle, where the department displayed our product. We received additional assistance in preparing a bid for a government contract. It would have been very difficult to tap these markets by ourselves.

Reave Warren, Managing Partner
Great Divide Mfg. Co.
Helena

Marketing Assistance

Because Montana is a state of small businesses, most firms don't have the advantage of in-house marketing expertise to move their products into the marketplace. For that reason, Build Montana has focused much attention on marketing assistance. The current marketing program consists of three distinct efforts: one-to-one assistance to individual Montana firms, trade show exhibiting, and the "Made in Montana" product promotion campaign.

The Commerce Department's marketing officer has consulted directly with 75 existing Montana businesses and

What started out as a product labeling program is growing, with the help of the private sector, into a full-scale marketing effort for Montana manufacturers. The program has been so successful that the departments of Commerce and Agriculture, at the request of Montana's agricultural community, have designed a "Grown in Montana" label to help promote Montana farm and ranch products.

Big Sky pride.

There's no limit to the fine products made right here in Montana. Show your pride when you shop.



Build Mootana

This magazine is a public service of this publication and the Managing Department of Commerce. If you are a manufacturer and want to see the Market in Southern China, you should produce your own magazine of Commerce and Industry. (1930, 1931, 1932, 1933)



CREAM OF THE WEST

SINCE 1915

SAVE 25¢
"THE NATURAL
MONTANAN"



Natural Fibre W

A BLEND OF FARINA, BRA



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SAVE
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Offer expires December 31, 1985.

Business Location

While most of the attention of Build Montana is focused on existing Montana businesses, one program — Business Location — is devoted exclusively to attracting out-of-state business investment in Montana. Often referred to as the latest “war between the states,” business recruitment is intensely competitive among the states, and Montana has a modest program compared with many other states.

The work of Montana’s single business location officer has been greatly enhanced by the Montana Ambassadors, whose job it is to familiarize out-of-state business executives with Montana as a place to do business.

All of Montana’s recruitment efforts are based on a Business Recruitment Marketing Plan, which positions Montana in the business recruitment field and targets prospective types of businesses. The marketing plan is built around the following summary positioning statement:

Montana should direct its business recruitment effort toward out-of-state firms:

- which are in growth-type industries;
- which can produce value-added products using Montana raw materials;
- which can capitalize on import substitution (particularly financial services, wholesalers, insurance, agricultural supplies, ranching supplies, construction materials, machine tools, manufactured housing, outdoor recreation products);
- which require a semi-skilled labor force of less than 250 employees;
- which produce a product that has low transportation cost;
- whose managers and personnel have a proclivity for Montana’s lifestyle.

The purpose of this summary positioning statement is to define target sectors and business types which have the best potential for location in Montana and can be influenced by marketing activity.

The state’s business location officer has responded to approximately 200 inquiries for business location information since July 1, 1983. Roughly 20 percent of these inquiries come from businesses located outside the United States, primarily in Canada. Other activities of the business location program include an advertising campaign, sponsored jointly by the state and the private sector, that will feature Montana’s business environment in an eight-page, full-color insert in 12 magazines that have been targeted according to the business marketing plan. Also, airport displays have been targeted to out-of-state business executives flying into major commercial and general aviation terminals in Montana. The displays will include a toll-free number for obtaining additional information about Montana’s business environment. Similar displays will be located at major resort areas around the state.

The department has been an enormous help to our community over the past three years. In addition to providing technical assistance to individual businesses, the department has been a partner in developing our 10-county business marketing program and our tourism marketing program. Most important, the department has encouraged us to develop our existing resources rather than to wait for some new industry to come to our rescue.

Jim Davison, Manager
Anaconda Local Development Corp.
Anaconda

Assistance to Local Development Organizations

Recognizing that measurable business investment and development occur at the local level, the 1983 Legislature expanded the capacity of the Department of Commerce to deliver technical assistance and training to communities in their efforts to strengthen and expand their local economies. Training has been directed toward both local officials and professional development staff. In some cases, the state has participated in cost-sharing contracts for specialized expertise necessary to carry out a specific local development project, such as a marketing study. Special emphasis has been placed on assisting the existing small business community rather than focusing on recruitment.

Since July 1, 1983, this program has provided direct, on-site technical assistance to 23 Montana communities in the form of training workshops and briefings. The program sponsored three major workshops around the state designed to meet the training needs of local development organizations; 29 communities were represented at one or more of these workshops.

Development Finance Technical Assistance

With the implementation of the Coal Tax Loan Program, the Composite Industrial Revenue Bond Program, the Montana Capital Companies Act and other development finance programs, Montana has taken a significant first step in bridging the capital gap for business start-ups and expansions. It is one thing to have the resources in place, however, and another to make them accessible and useful to the people who need them. Most of these new lending programs work closely with existing Montana lending institutions and each has its own eligibility requirements. When these state programs are added to the list of federal programs like Community Development Block Grants, Urban Development Action Grants, and SBA loan guarantees, the maze of business financing options and the requirements for each become complex and time-consuming for the ordinary small business person.

To help businesses sort out financing options and tailor feasible finance packages, the 1983 Legislature authorized creation of the Development Finance Technical Assistance

Program. This program provides technical assistance to businesses in the areas of financial analysis, financial planning, loan packaging, industrial revenue bonding, state and private capital sources and business tax incentives.

Major objectives of the program include:

- Identifying available business financing sources, both private and public;
- Counseling businesses on tax incentives, financial planning, loan application preparation, debt restructuring, and presentations of proposals to lending institutions, and
- Assisting local areas in qualifying for designation as certified development corporations capable of administering SBA 503 loan programs.

From July 1983 to November 1984, the program worked with six new or expanding businesses to prepare grant applications, bond funding and loan proposals or to provide loan packaging services. The program officer has provided financial counseling service to approximately 200 in-state firms, and is currently working with three other firms to develop either financing proposals or loan packages.

I feel that these classes should be attended before a person tries to go into business. Many mistakes don't have to be made.

Jerry Benjamin, Owner/Manager
Dulcitone Piano & Organ
Bozeman

University Center for Business and Management Development (UNICEN)

Located at Montana State University and drawing on the resources of all units of the university system, UNICEN provides training in business skills for the owners of small businesses throughout the state. In its first year of operation, UNICEN has sponsored 52 business skills workshops providing training for more than 2,000 Montana business people.

In addition, UNICEN has assisted with 57 other training activities by providing instructors, course outlines, administrative or financial support. Not all workshops take place on the MSU campus. Through an extensive outreach program, UNICEN has offered workshop training in 20 communities.

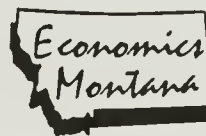
The UNICEN curriculum includes coursework in computers, financial analysis, promotion and advertising, time management, professional development, customer relations and supervisory skills. Each course is offered at a nominal fee, ranging from \$25 to \$45, and provides an excellent opportunity for people just getting started in business to learn new skills and for seasoned business people to brush up on their skills and pick up new ideas.

What impressed me was the forthright, simplistic, results-oriented approach taken by the program. I've worked with a lot of government programs, but never one with so little paperwork to get the job done. The training worked out great and so have the trainees. This gives us a real incentive to further expand our operation and request more trainees under the program.

Mike Bullock
Helena Industries
Helena

Start-Up Labor Training Program

As part of the Build Montana program, the 1983 Legislature appropriated \$500,000 over the biennium to be used by the Department of Labor to train dislocated workers for specific jobs. One of only a handful of start-up training programs in the country, this program provides a strong incentive for new and expanding businesses. Employers work directly with the Labor Department to specify the kind of training they need. From the time the program began through October 1984, 117 dislocated workers had completed training and 88 had been placed in new jobs, for a placement rate of 76 percent. Training has ranged from boot-making and furniture building to electronic assembly.



Montana Economic Reporting and Forecasting System

The Montana Economic Reporting and Forecasting System was established to improve the level of information available for making decisions about Montana's economy. It provides useful data about current and future economic conditions in the state, i.e. employment, unemployment, and personal income.

The Montana Economic Reporting and Forecasting System was funded by the 1983 Montana Legislature and is administered by the Montana Department of Commerce. Although headquartered at the Bureau of Business and Economic Research at the University of Montana, economists from Montana State University, Montana Tech, various state government agencies and private industry are important contributors to the project. The project began July 1, 1983.

Census and Economic Information Center (CEIC)

The Census and Economic Information Center is the lead agency of the Montana State Data Center, a federal-state cooperative program with the U.S. Bureau of the Census. Because of its inventory of population and economic information, CEIC was moved from the Department of Administration to the Department of Commerce in July

1983 as part of the Build Montana program. Since that time, the CEIC staff has responded to more than 2,000 inquiries from the business and government sectors as well as from the general public. Since its move to the Commerce Department, CEIC has recorded a 66 percent increase in the number of inquiries it handles from the business community.

The Census and Economic Information Center provides substantial support services to the Commerce Department, with recent involvement in the Governor's Council on Economic Development, the Montana Economic Development Board and the Advisory Council on Science and Technology. CEIC assists the Business Assistance Division in providing data for business location inquiries. In addition, it provides economic/population impact information to the Montana Coal and Hard Rock Mining boards.

TOURISM

Tourism is a growth industry. It's an important part of the economic mix Build Montana has sought to enhance and diversify Montana's economy. Tourism proved its worth to Montana most recently during the recession. When traditional industries like wood products and aluminum manufacturing fell upon hard times, tourism flourished. It provided new jobs at a time when other industries were laying off workers.

Upon the recommendation of the Legislative Auditor, the state has undertaken two major tourism research projects, one on the economic impact of tourism and one to examine existing markets and uncover new markets for Montana as a travel destination. The economic impact study was supported in part by the Governor's Council on Economic Development.

Table 1
The Montana Travel Industry
1979 and 1983

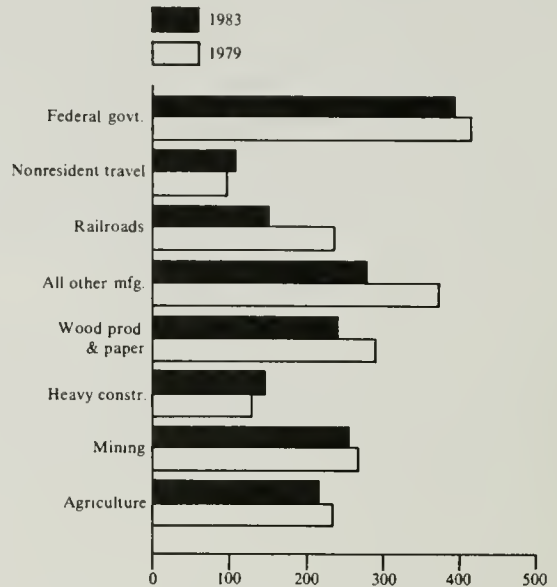
	1979	1983	Percent Change
(Millions of Constant 1983 Dollars)			
Total travel expenditures	748	814	9
Nonresident	382	423	11
Tourist	114	127	11
Resident	366	391	7
Tourist	92	98	7
Total labor income generated	188	204	9
Travel by nonresidents	96	106	10
Tourist	29	32	10
Travel by residents	92	98	7
Tourist	23	24	7
(Number of Jobs)			
Number of travel-related jobs	17,600	20,200	15
Nonresident	9,000	10,500	17
Resident	8,600	9,700	13

Source: University of Montana, Bureau of Business and Economic Research.

Note: Percentage changes calculated from unrounded numbers.

Figure 1
Changes in Labor Income,
Basic Industries, Montana
1979-1983

(In Millions of Constant 1983 Dollars)



Sources: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System, unpublished data (Washington, DC, 1984), and University of Montana, Bureau of Business and Economic Research.



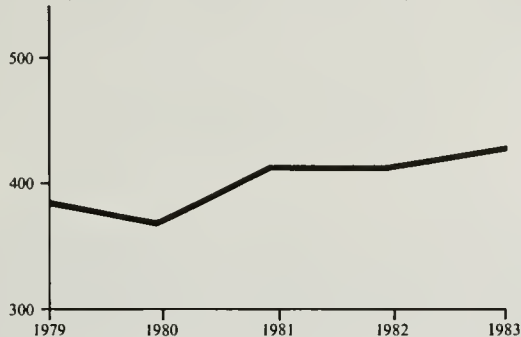
Figure 2
Number of Nonresident Visitors,
Montana
1979 and 1983
(In Thousands)



Source: University of Montana, Bureau of Business and Economic Research.

Figure 3
Expenditures by Nonresident
Visitors, Montana
1979-1983

(In Millions of Constant 1983 Dollars)



Source: University of Montana, Bureau of Business and Economic Research.

According to the University of Montana's Bureau of Business and Economic Research, which conducted the economic impact study, only two basic industries — nonresident travel and heavy construction — have increased their payrolls in recent years. According to the study, labor income generated by the expenditures of nonresident travelers is estimated to have increased 10 percent between 1979 and 1983. "This was a notable achievement during a period of recession and increasingly unfavorable money exchange rates for Canadian visitors." (*The Montana Travel Industry*, 1983, Bureau of Business & Economic Research, University of Montana, October 1984)

Total travel expenditures and labor income, including resident travel, are up about nine percent. Total travel expenditures of \$814 million in 1983 created \$204 million in labor income, according to the Bureau. The Bureau counted approximately 20,200 travel-related jobs in Montana in 1983, an increase of more than 2,500 jobs over 1979. Wages are lower in the tourism industry than in several other industries. "Nevertheless, the industry fills an important function by providing a larger number of jobs for unskilled workers as well as those who desire part-time or seasonal work. It also offers entrepreneurial opportunities for people wanting to start their own businesses." (*The Montana Travel Industry*, 1983)

Recognizing the growing importance of Montana's travel industry, the 1983 Legislature significantly increased the budget for the state's travel promotion efforts, from \$1.34 million in 1982-83 to \$2.51 million in 1984-85. The additional funds have been invested in increased summer and winter advertising, increased quantity and quality of promotional publications, increased exhibiting, initiation of group tour promotional programs, publicity and a matching funds program.

We were pleased with the work that the tourism office contributed to the (1984 Coca-Cola/Travel Montana) program. The campaign was handled in a very businesslike, professional way. We were so pleased with the 1984 campaign, we have committed to sponsoring it again next year, and we are considering making it an ongoing program.

Jim Wylder, President
Montana Coca-Cola Bottlers
Association
Great Falls

The partnership between government and business that has been so important to the success of the Build Montana program has also been at work here. It is anticipated that by the end of the current biennium, private sector contributions from the airlines, innkeepers, ski areas, outfitters, etc., to state tourism programs will exceed \$600,000. To date, private sector contributions exceed \$300,000.



TRIBUNE METRO/MONTANA

State, businesses join in skiing promotion

By CHARLES A. JOHNSON

Tribune Capital Bureau

Great Falls, Mont.

Great Falls, Mont.

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A strong winter tourism industry would do a lot for Montana. It comes at a time when our seasonal industries are off. As past president of the Northern Ski Area Operators Association, I have worked closely with the state to build Montana's winter tourism season. Three years ago, the state had no winter promotion program. Today, we have a \$190,000 winter campaign, a full 50 percent of which is supported by the private sector. The state tourism office has been more than accommodating in designing new programs to stimulate the winter season, and I think most of our ski areas feel they have benefited from the exposure.

George Willett, President
and General Manager
Showdown Ski Area
Neihart

- Montana's first major in-state tourism campaign, "Travel Montana," was initiated this past summer. Coca-Cola was the prime sponsor, with prizes donated by the Treasure State Chevrolet Dealers and Montana's travel industry.
- A cooperative magazine advertising campaign, featuring Montana, Wyoming and the three major national parks they share, is in its third year.
- Montana's popular "Invite-a-Friend" campaign grows each year. As of October 1, 1984, the campaign had generated nearly 60,000 inquiries, a significant increase over the 34,000 inquiries received during 1983.

Publications

The quantity and quality of travel promotion publications has been increased.

- Vacation Guide and Accommodations Guide printing increased from 250,000 copies to 400,000 copies to accommodate increased advertising inquiries.
- An Adventure Guide has been published in conjunction with the Montana Outfitters and Guides Association.
- 250,000 "Ski Montana" package tour brochures have been published for the 1984-85 winter season in conjunction with ski areas and major airlines.
- Summer package tour brochures have been produced in conjunction with airlines and Montana's in-bound tour operators.

Promotional Exhibiting

Designed to provide direct travel counseling in target markets, the number of consumer exhibits has increased from 6 to 9, the number of travel trade exhibits from 5 to 20.

Publicity

A new publicity program has been initiated. The program is designed to obtain editorial coverage of Montana's vacation opportunities in magazines, newspapers and on television. In 1984, writers and editors from more than 20 national magazines were hosted in Montana. In addition, two television documentaries were filmed.

Group Tour Promotions

New programs were added to more aggressively promote group tours in Montana. These included a direct mail campaign to 100 top tour operators in the United States and Canada, and tie-in advertising with Montana businesses in travel trade publications.

MONTANA AMBASSADORS



Recommended by the Montana Economic Development Project in 1982 and approved by the 1983 Legislature, the Ambassador program is a private sector effort designed to augment the state's limited economic development resources. Nearly 180 business leaders from throughout the state have committed their time and resources to this effort.

Using their existing professional networks, Ambassadors represent the State of Montana when traveling outside the state by making personal sales calls on business executives and tour operators to familiarize them with Montana as a place to do business and as a travel destination. Ambassadors work inside the state, too, hosting visiting dignitaries, business executives and trade delegations, and working with Montana manufacturers to help market their products.

As of November 1, 1984, Ambassadors had made sales calls in 15 different states, one Canadian province, and three foreign countries. At home, Ambassadors have hosted visitors ranging from the Taiwanese "Buy American" procurement mission, which purchased \$14 million worth of Montana grain in September, to a member of the Dutch Parliament, a rural development official from Lesotho, Africa, and representatives of the Long Term Credit Bank of Japan, who visited several western states in October to explore investment opportunities.

Ambassadors also participated in a series of marketing seminars for Montana manufacturers that were sponsored jointly by the Department of Commerce and the Montana Retail Association.

The Ambassador corps is divided into working committees that specialize in the areas of business recruitment, marketing development, community development, protocol and special events. The organization is financed by its membership and staffed by the Department of Commerce.

In effect, the Ambassadors are a front-line sales force that multiplies the effectiveness of individual program managers within the Department of Commerce by 180.

In their own words, the Ambassadors are a "non-partisan organization of private sector business executives, working with the state to promote long-term, responsible, economic growth in Montana."



DEVELOPMENT FINANCE PROGRAMS

Montana Economic Development Board

The need for capital — in the right amount and on the right terms — is common to all businesses. Large, established corporations seldom have trouble tapping traditional capital markets, but the right kind and the right amount of capital has traditionally been unavailable to small business. In Montana, this lack of capital has been a major impediment to the creation and expansion of small business.

In addition to serving a state's existing small business community, capital availability is a critical factor in many business relocations. Of the 200 business location inquiries the Department of Commerce has fielded since July 1983, nearly half have requested information on financial incentives for moving to Montana. Specifically, they were concerned about affordable, available capital.

Montanans sought to bridge the capital gap two years ago by turning out in large numbers to pass an initiative known as I-95 or the "in-state investment initiative." By a margin of 71 percent, Montana voters passed this ballot measure which required that 25 percent of the revenue deposited in the permanent coal tax trust fund after June 30, 1983, be invested in the Montana economy. From that voter-passed law, the 1983 Legislature molded the Montana Economic Development Board (MEDB), which administers the Coal Tax Loan Program and four other development finance programs: the Composite Industrial Revenue Bond Program; the Stand-Alone Industrial Development Bond Program; the Municipal Bond Pooling Program and the Montana Capital Companies Act.

The four business finance programs administered by the MEDB are described herein. (For more detailed descriptions, see the Board's separate "Report to the 49th Montana Legislature.") The Municipal Bond Pooling Program is discussed under the heading of Local Government Assistance.

All four business finance programs are designed to help Montana small businesses obtain attractive capital financing. Each program has different eligibility criteria

under state or federal law, but the primary focus of all the programs is to increase the availability of **long-term, fixed-rate** financing. This type of financing is particularly important to small, expanding firms. The long-term feature allows firms to spread their debt payments over time, and the fixed-rate feature allows businesses to plan for the future with some degree of certainty.

By going through conventional sources, we would have paid 2 to 3 percent more interest on our loan. But by guaranteeing us a fixed rate of interest over 15 years, the coal tax loan has put us on equal footing with the larger, conglomerate lumber companies.

Jim Hurst, President
Owens & Hurst Lumber
Eureka

Coal Tax Loan Program

The MEDB makes coal tax loans to basic sector businesses through participating financial institutions such as banks, credit unions and savings and loan associations. The Board makes no direct loans. Because growth in other economic sectors is dependent on the growth and expansion of basic sector businesses, the focus of the coal tax loans on basic sector businesses is intended to stimulate growth in the derivative sectors as well. Coal tax loans may finance acquisition of land, buildings or equipment, and working capital if federally guaranteed.

Coal tax loan money pumps employment

By Tim J. Lee, President, Basic Sector.
The Montana Economic Development Board (MEDB) has approved a loan to Owens & Hurst Lumber Co. for the purchase of a new sawmill. The loan is for \$1.6 million and is guaranteed by the state. The loan is for 15 years and has a fixed interest rate of 12 percent. The loan is for the purchase of a new sawmill. The loan is for 15 years and has a fixed interest rate of 12 percent. The loan is for the purchase of a new sawmill. The loan is for 15 years and has a fixed interest rate of 12 percent.

As of November 30, 1984, the Board had approved coal tax loans totaling \$4,999,600 to 10 businesses in seven communities. An \$11.6 million match from private investors and lenders totals \$15.2 million in projects that are expected to generate an estimated 245 to 294 new jobs in the state. The state can also expect to benefit from secondary jobs in the service sector stimulated by these loans by basic sector businesses.

The Board has \$5.4 million available yet for coal tax loans in the current fiscal year. Currently pending are 20 serious inquiries with loan requests that total more than \$20 million. The Board has received 565 initial inquiries from lenders and businesses. Based on current coal projections, the Board hopes to approve an additional \$15 million in loans by the end of the next fiscal year.

With the long-term, fixed-rate loan I obtained with the help of my banker through the pooled Industrial Revenue Bond Program, I have a fixed rate of interest that enables me to plan for growth. I would like to expand my business to other parts of the state, and now I can proceed without having to worry about unpredictable finance costs. I used to think the small businessman was all alone, but with this program, the state has enabled me to plan for the future.

Larry Reed, Sole Proprietor
Montana Claims Service
Billings

Composite Industrial Revenue Bond Program

Loans in the composite industrial revenue bond program do not utilize coal tax trust funds; rather, they are funded through the sale of state-issued composite industrial revenue bonds. Unlike the coal tax loan program, which is restricted to basic sector businesses, the composite IRB program is available to retailers and other service businesses as well as basic sector businesses. IRB loans may be used for financing buildings, equipment or land.

The pooling together of a number of small loans into one composite bond issue makes tax-exempt financing available to Montana small businesses for the first time. Traditionally, tax-exempt financing from industrial revenue bonds has been available only to larger businesses that can afford the costs involved in preparing and selling bonds. Costs of issuing the composite bond are prorated among the borrowers in a given pool.

The Board has already approved \$3,037,000 in composite industrial revenue bond loans to seven Montana small businesses. As of December 1, 1984, there was over \$3 million in loan applications pending for the second composite bond issue. The MEDB intends to close a loan pool and issue a composite bond approximately every four months.

Stand-Alone Industrial Development Bond Program

The MEDB may issue bonds on a "stand-alone" basis to interested Montana lenders. Through this program, the Board simply acts as an issuing authority to allow tax-exemption of interest on a qualifying loan.

Under the stand-alone program, the originating lender assumes total risk of the financed project. The project owner

is required to pay bond counsel fees and the Board's administrative and financing fees. The maximum loan under this program is \$10 million. Two firms are currently negotiating stand-alone issues with the Board. However, the requirement that these bonds be guaranteed has limited their appeal to Montana businesses.

Montana Capital Companies

This program is designed to make private "venture" or "equity" capital an available resource within the state. Before legislation creating this program was approved in 1983, Montana had no venture capital firms. Now, there are three "capital companies" that have been approved by the Board and are in the process of raising investment capital from individual and corporate Montana investors. Two additional capital companies have organized but have not yet completed the approval process. Each company seeks to raise \$1.5 million in equity capital; collectively, the three active companies have raised over \$1.4 million.

Through this program, the state offers a 25 percent tax credit (up to \$25,000) as an incentive to individual investors in qualified Montana capital companies. The companies, in turn, must invest these funds in small, basic sector Montana firms. The available tax credits are limited to \$2 million through 1987 and are divided among the capital companies. All Montana capital companies must be approved by the MEDB before they can actively raise investment capital.

Additionally, the first federally chartered Small Business Investment Company (SBIC) was established in Montana in 1984, and a statewide 503 corporation was created.

West Mont was able to purchase some 'high tech' equipment and to make plans to build their own headquarters. These decisions were possible because of their participation in the MHFA's first bond drive. The current interest rate on this money is 8.5 percent. West Mont would not have attempted such a project if only current market rates were available to them. These decisions will substantially reduce their costs and upgrade their efficiency.

Sr. Elizabeth Henry, RN, Administrator
West Mont Home Health Care
Helena

Health Facility Financing

In an effort to curb escalating medical costs, the 1983 Legislature authorized creation of the Montana Health Facility Authority (MHFA) to provide tax-exempt financing to Montana's non-profit health facilities.

The MHFA administers two distinct financing programs through the issuance of tax-exempt industrial development bonds (IDB's). The first, the Pooled Loan Program, operates much like the Composite Industrial Revenue Bond

Program and the Pooled Municipal Bond Program. By pooling the debt of Montana's health facilities and utilizing a number of credit-enhancing techniques like letter-of-credit-backed bonds, the MHFA can provide significant savings to each facility in the form of reduced interest rates.

During its first year of operation, the MHFA surveyed all non-profit health institutions in the state and developed a firm estimate of the short-term capital needs of each. Based on the results of the survey, the Authority sold its first composite bond issue in September 1984, providing a \$20 million pool of funds from which 20 participating health facilities in 17 communities will draw loans over the next several years. All loans covered by this pool bear an interest rate of roughly 8 percent, compared with traditional borrowing rates of 15 to 18 percent for short-term capital needs. By issuing just one composite bond for all 20 facilities, the Pooled Loan Program has effectively cut the short-term borrowing rate for these health facilities in half. By the time the entire pool of funds has been loaned out, the program is expected to result in a cost savings to these Montana health facilities of approximately \$1 million.

Under the second program, the MHFA acts as an issuing authority to provide tax-exempt debt to individual health facilities. The Authority is currently processing three requests totaling \$19 million for "stand-alone" IDB's for the construction of health facilities in three different communities. The MHFA has also sold \$1.2 million in tax-exempt notes to finance the interim construction of an FHA-approved hospital facility.

Board of Housing

By making low-interest home loans available to qualified Montana homebuyers, the Montana Board of Housing helps Montanans realize their dream of owning a home. Since July 1, 1983, the Board has issued \$190 million in tax-exempt housing bonds, which has provided nearly 3,000 homebuyers with low-interest loans. The most recent issue made \$75 million available through approved Montana lenders at a rate of 10½ percent. The low interest rate demonstrates that Montana's housing bonds are highly regarded on Wall Street.

Since 1977, more than 9,000 single-family housing units — both new and existing — have been purchased through this program. Encouraging home ownership is one way to stimulate Montana's wood products and construction industries. As a result of the Board's November 1983 issue of \$115 million, 1984 has been one of the state's biggest housing construction years in history. About \$34 million of that issue was targeted for new construction.



Water Development Program

The Department of Natural Resources and Conservation administers a water development loan and grant program for public agencies, private individuals and businesses. This program is funded in part by the coal severance tax, which provides about \$1.5 million biennially, for grants. Two bonding authorities provide another \$255 million for low-interest loans.

A wide variety of water development projects are available for these loans and grants, including hydropower development, dam and reservoir construction, irrigation projects, development of water-based recreation facilities, stream bank stabilization and other erosion control programs.

The program was created by the 1981 Legislature to promote the beneficial use of Montana's water. DNRC proposed the first projects for legislative approval in 1983, as part of the Governor's economic development program. Since that time, 35 projects have received grant financing. There have been two general obligation bond sales. The first was for \$1.3 million in October 1983. Fifteen loans were made from this sale at an interest rate of 7.2 percent. The second sale for \$900,000, made in October 1984, will provide loans to nine private individuals at 8.7 percent. In August 1984, \$10 million in coal severance tax bonds were issued to provide funds for 16 projects proposed by conservation districts, irrigation districts, county water and sewer districts, municipalities and one state-owned project operated by a water users' association. These loans are being made at this time.

The department solicited applications for projects to be presented to the 1985 Legislature, and received 130 applications for \$10 million in grants and \$49 million in loans.

A low-interest, renewable energy loan provided about a quarter of the financing for our new pellet fuel plant in Livingston. It also enabled us to market our product, which converts sawmill waste to pelletized wood heating fuel for both home and industrial use. Of all the financing we obtained to put this business together, the renewable energy loan was the most affordable.

Loren Collins, Part-Owner
Mountain Energy
Livingston

Renewable Energy Program

The Renewable Energy Program, funded through Montana's coal severance tax, was established in 1975 to reduce the state's reliance on fossil fuels through increased use of solar, wind, geothermal, small-scale hydro and biomass energy alternatives. In 1976 the Department of Natural Resources and Conservation offered its first grants to Montanans researching, developing and demonstrating

renewable energy alternatives. To date, more than 250 projects have been financed in whole or in part by these grants.

In 1981, the program was expanded to include loans for the commercialization of renewable energy technologies for those projects with payback or income-generating potential. The loan program is designed to stimulate the renewable energy industry and to establish this industry within the Montana economy. The 1983 Legislature expanded the program to include grants for energy conservation projects.

Any new or expanding business incorporated or authorized to do business in Montana is eligible to apply for a loan. Development, design, building, manufacturing, distribution

or sale of a renewable energy form, process or system can be funded through the program.

The maximum funding available for any loan project is 10 percent of the total Renewable Energy and Conservation Program appropriation for the year in which the application is submitted. For Fiscal Year 1985, the maximum loan amount available to a single borrower is \$333,600. Loans are serviced by participating lending institutions, which finance a minimum of 10 percent of each loan. DNRC provides up to 90 percent of the loan principal at the current Federal Reserve discount rate; the participating lending institution may set its own interest rate on its share of the loan. Current loans carry a blended, average interest rate of approximately 10 percent.

LOCAL GOVERNMENT ASSISTANCE

The role of local governments in economic development is critical. Not only do they provide raw materials for business, such as water and gas, but they also provide necessary services such as police and fire protection. The degree of efficiency and good management practiced in delivering these services also determines the tax burden that falls on business at the local level. Communities that have well-managed local governments and that deliver quality services are much more attractive for business expansion.

The importance of public facilities in industrial location decisions has been documented by the U.S. Department of Commerce. Based on a survey of more than 2,000 firms in over 250 industries, the study found that the availability of water, wastewater treatment facilities and good roads were prerequisites before a community would even be considered as a place where a facility would be located.

Unfortunately, most of Montana's local governments are facing severe problems in meeting these ongoing needs for services. Montana local governments have an unusually high reliance on a declining property tax. This problem of declining revenues is occurring simultaneously with several other problems. Montana's stock of public facilities is reaching the point of severe physical decay and will require substantial capital investment in the next few years. The cost of repairing or replacing these facilities has escalated considerably due to inflation and high interest rates. Finally, the federal government is cutting back on its support of local government.

The challenge of delivering quality public services in an environment of decreasing public revenues is substantial. Most of Montana's local governments have very limited staff resources to apply to the challenge. Over 72 percent of Montana's municipalities have less than 2,000 population. Over 62 percent of Montana's counties have less than 10,000 population. These local governments cannot afford to have

on staff the variety of specialized skills involved in planning and financing public service.

The programs listed below offer assistance to local governments in two ways: grants and loans to support the costs of capital construction and ongoing service delivery, and technical assistance in the areas of planning, finance and fiscal planning.

Community Development Block Grant

This competitive grant program assists local governments through the awarding of grants for construction of local projects in three areas: public facilities, housing and economic development. In October of 1983, over \$6 million was awarded to 15 Montana local communities for projects ranging from \$21,850 to Flaxville for a waste system to \$1.5 million to Kalispell for comprehensive public facility/economic development/housing rehabilitation.

In November of 1984, the program awarded just under \$5 million to 13 communities. Several of these grants will go to correct longstanding water supply problems in small, rural communities in the state, including Flathead County (Martin City), Neihart, Melstone, Saco, Lake County (Charlo), White Sulphur Springs and Winnett. Three grants will go to creating job opportunities in Lewis and Clark County and in Belgrade. One grant will go to Butte for comprehensive neighborhood revitalization.

This program is administered through the Community Development Division of the Department of Commerce.

Local Government Block Grant

This program was enacted by the 1983 Legislature to provide a new revenue source for local governments that have experienced a loss in tax revenues. The formula for

distribution of block grant monies was determined jointly by representatives of Montana's municipalities and counties. The total amount of money distributed to all local governments through this program in 1984 was \$17,141,739.

Technical Assistance

Most of Montana's local governments are small and rural, and often lack access to specialized expertise. Two aspects of technical expertise are particularly crucial to local governments' ability to operate in the most cost-effective manner. They are financial management and planning.

Mechanisms for accurately tracking revenues and expenditures are necessary to allow local officials the information they need to make budget decisions and effectively supervise local spending and investments. Planning is necessary to determine costs of delivery of services over time. For example, the layout of new streets has a major impact on the costs of providing water, sewer and street maintenance to homes or businesses to be built. Planning is also necessary in projecting capital improvements and phasing the financial investments necessary to construct them.

The Department of Commerce has programs of technical assistance in both of these areas, with financial management assistance available through the Local Government Services Division and planning assistance available through the Community Development Division.

Municipal Bond Pooling Program

This program is intended to operate much like the Pooled Industrial Revenue Bond Program except that it applies to municipalities (cities, towns, counties, school districts and special improvement districts) instead of private businesses. The intent of the program is to reduce both the cost and the complexity of obtaining tax-exempt debt financing for projects less than \$500,000 by pooling municipal debt under a single bond issue.

After extensive marketing of the program to local government units during the summer and fall of 1984, only four applications were submitted, totaling \$1,083,000. A careful analysis of the cost of issuance and potential interest rate savings by the Montana Economic Development

Board's financial advisor on a bond issue this size determined that it would not be cost-effective for the Board to issue the bond or for local governments to participate in the program. The Board will provide a report to the Legislature on the cost-effectiveness of pooling municipal bonds under the current legislation.

Infrastructure Task Force

In January of 1984, Governor Ted Schwinden appointed a special task force composed of 15 representatives from state and local government and the private sector and chaired by Lieutenant Governor George Turman. The task force was charged with the responsibility of assessing the physical and financial needs of Montana's local governments in the area of public works (infrastructure) and of making recommendations to the Governor and the Legislature for statutory and administrative changes necessary to address those needs.

A composite picture of those needs for which information exists includes: \$100 million for bridges; \$7.0 billion for roads; \$1.1 billion for streets; \$20 million for airports; \$4.8 million for intra-city bus facilities; \$100 million for municipal water systems; \$231 million for wastewater systems; \$6.5 million for solid waste; \$400,000 for libraries and \$57 million for county jails.

While these needs add up to a staggering amount, the task force recognizes that it is up to each local community to inventory its own specific needs and priorities for addressing them. The primary role of the state is to facilitate local governments' ability to deal with these problems locally. To that end, the task force has made a number of recommendations for statutory changes that can be considered by the 1985 Legislature. These changes, however, will only begin the process of giving local officials the tools and authority they need to address public works in the most cost-effective fashion. The task force also strongly recommends that an Interim Commission be constituted to renovate Montana statutes governing local public works planning, financing and operation. For a complete report on the findings and recommendations of the task force, see this group's separate, final report, which has been submitted to the Legislature.





TRANSPORTATION

Highway Program

In 1983, the Department of Highways informed the 48th Legislature that the condition of Montana's highways was distressing. A total of 2,660 miles, or 50 percent of Montana's primary highways, needed reconstruction or repair; 40 percent of the state's bridges were substandard and the interstate system still had four major gaps to be closed before completion. The lack of federal and state construction funds in 1982 and 1983 resulted in further deterioration of the state's highways and significant unemployment in the construction industry. Because roads are a key element in Montana's economic well-being, the deterioration of the state highway system has had a significant negative impact on the state's ability to compete in national and international markets and to retain existing or attract new businesses to the state.

The 1983 Legislature clearly recognized the problem and approved a watershed highway program for Montana. The legislature, by acting favorably on various proposals from the administration and recommendations from the Governor's Council on Management, the Governor's Transportation Advisory Council, a Joint Subcommittee on Highways and a legislative audit report, provided the department with some of the tools necessary to begin the task of reversing the deterioration of Montana's roadways.

While the initial results of this new highway program are detailed in the Department of Highways' "Report to the 49th Legislature," some of the more significant ones are listed below.

- During fiscal 1984 the department let a total of \$177 million in construction projects to contract, and expects to let another \$153 million in fiscal 1985. This compares to \$90 million in fiscal 1983.
- By the end of the current biennium, the department will have contracted for or completed 70 of the remaining 74 miles of interstate, utilizing the accelerated interstate construction program, bonds and special interstate discretionary funds.

- Preliminary engineering work has begun on projects which will result in the reconstruction or other correction over the next seven years on most of the 458 miles of the primary highway system identified in 1983 as being "critically deficient." During the current biennium, 70 miles of critically deficient and 144 miles of deficient primary highways will have been reconstructed or let to contract.
- The Reconstruction Trust Fund (RTF) program has enabled the department to complete over 100 miles of pavement preservation in fiscal 1984; it is expected that an additional 350 miles will be completed in fiscal 1985.
- At the end of September 1984, the department had either contracted or completed the repaving of 340 miles of interstate, or 28 percent of Montana's total interstate miles, due to the increased interstate funding for repair purposes.
- Utilizing the increased federal funding commitment to bridge replacement and rehabilitation, the department has begun preliminary engineering work which will lead to the replacement of 168 deficient bridges on the primary system over the next seven years.
- Planning and designing for the addition of one interchange per year on the interstate system will be done, as long as the need exists and federal funding continues for these projects.
- The department's program has resulted in the creation of an estimated 1,800 private sector jobs in the construction and supplier industries in Montana.

Another aspect of the highway program is the protection of already existing highway plant. In addition to the RTF program goal to preserve and maintain Montana's existing highway system, the department's Gross Vehicle Weight program is also designed to protect the highways by enforcing the state's gross vehicle weight laws. The 1983 Legislature provided additional FTE and funds to expand the GVW program efforts in the area of concentrated enforcement and rover scale activities, as well as improved operations of the permanent scale stations.

The State's settlement with Burlington Northern over the abandonment of the Geraldine-Denton line will be the key to preserving roads in our area and saving our towns. Because of the increased costs of operating a farm, this community-owned rail line may make the difference between some of us making it and some not.

Gene DeMars, Chairman
Central Montana Rail Association and
Grain Farmer, Coffee Creek

Rail Transportation

With 94 percent of Montana's rail network operated by one carrier, there is little opportunity for alternative rail service or other competitive modes to haul the state's three major bulk commodities — coal, grain and lumber. And with congressional passage of the Staggers Act, the abandonment of branchlines has become easy for the railroads. In 1980, Montana's rail system was 3,823 miles in length. Since 1980, 305 miles or 27 percent of branchlines have been abandoned.

State, BN reach landmark pact on branch lines

By STEVE SHURLEY

JP State Bureau

Burlington Northern Railroad agreed Wednesday to delay abandoning certain Montana branch lines for

a good precedent for continued cooperation between the state and BN whose holding company owns 15 percent of the state's land. BN spokesman Pat Haulte said the railroad is happy because it doesn't have to maintain and operate the

BN closed the Geraldine line in February 1983 after problems were found with the trackage. Last month the Interstate Commerce Commission granted BN a request to abandon the line.

Build Montana has been active in the promotion of transportation solutions to aid Montana's commodity producers.

Started and/or completed in the 1983-84 biennium were two projects to improve and rehabilitate rail lines which link vital rural businesses to their distant market outlets. In addition, legal action to prevent abandonment of a central Montana branchline has led to a unique out-of-court settlement. The settlement allows for the establishment of a locally owned and operated branchline rail service. Local leadership can now address local transportation economies while the major railroad secedes to a strong profit base trunkline operation.

Maintaining the essential rail system is not enough. Sometimes, minor improvements to the system can expand market opportunity, create healthy competition and stimulate business growth. Such is the case with the transportation interchange at Silver Bow located outside of Butte. State participation in a grain subterminal transloading facility has opened new market potential for Montana's agricultural products and provided competition within the transportation industry.

The Transportation Division of the Montana Department of Commerce will continue to promote transportation policy for Montana's economic growth. A separate report will be presented to the 49th Legislature outlining the status of the state's rail system.

Airport Loan Program

Under legislation passed in 1983, the Department of Commerce's Aeronautics Division has greatly expanded its Airport Loan Program. Prior to the new legislation, the division earmarked up to \$250,000 a year for loans to help finance airport improvements in Montana. Even though the loans are matched 90 percent by Federal Airport Improvements Program grants, the state's small budget was not large enough to provide its share of needed matching monies.

Under the new program, \$1.3 million was made available to the Aeronautics Division for the current biennium, financed by the sale of general obligation bonds issued by the Department of Administration and backed by cigarette tax revenues. As of September 1984, 13 loans had been approved under the new program for a total of \$732,162; three additional loans were pending at that time for another \$192,000. All loans have been made at an interest rate of 7.22 percent. Loan repayments are used to finance the Department of Administration's debt service.

The federal government has recognized the need for ongoing airport improvements and repairs. Because the 1983 Legislature responded to this need, Montana can now take advantage of available federal dollars to maintain safe and modern airport facilities.

With the state's new airport loan program, airports can now take advantage of available federal dollars for the repair and maintenance of facilities. The loan program works especially well for smaller airports because it enables them to borrow money at a reasonable rate and repay it over nine or ten years. Essentially, the state becomes a partner in airport financing projects.

Joe Attwood, Airport Manager
Great Falls International Airport
Great Falls



AGRICULTURE

The success of the nation's food supply system is due in large measure to the effectiveness of the individual states' agricultural systems. For many states, including Montana, agriculture is the backbone of the local economy. Any significant decline in agricultural production and gross revenues in such states can have a negative impact on the entire state economy, adversely affecting revenues and jobs throughout the state.

These are the kinds of problems currently facing the agricultural sector throughout the country and in Montana. In 1983, an average of 1,400 U.S. farmers and ranchers were forced out of business each week. Those who remain in the business are in debt for a total of \$216 billion, or nearly \$90,000 per farmer. The causes of these problems vary, but usually involve a combination of many factors, including low commodity prices, high interest rates, deflating land values, rising costs of production, erratic weather patterns, prior expansion trends and weak export markets.

This stress in the agricultural markets is producing serious problems for other sectors of the economy, particularly for financial institutions. Several Production Credit Associations were recently closed or reorganized in Montana and the northwest region as a whole. In addition, the Farmers' Home Administration faces unprecedented levels of delinquency and foreclosure conditions. In Montana, approximately 51 percent of Farmers' Home loans were delinquent as of May 1984.

In the past, some unpayable debt and disaster-related losses could be covered by inflationary increases in land values. Recently, however, land valuations have actually declined in many cases. As a result, some farmers and ranchers are substituting additional credit for inadequate income. This leads to debt-to-asset ratios for a large number of agricultural producers that are too high to enable them to manage additional credit or in other ways meet current adverse conditions.

Montana has initiated several new programs to help resolve the agricultural credit dilemma. These have included an aggressive new agricultural marketing program and the new Beginning Farm Loan program. In addition, the Water Development program along with various components of the Build Montana business assistance programs have been targeted toward helping to solve this increasingly difficult situation.

Beginning Farm Loan Program

The 1983 Legislature created the Montana Agricultural Loan Authority (MALA) to administer the Beginning Farm Loan Program. This program provides for the sale of tax-exempt bonds to enable the Authority to help lenders assist beginning farmers and ranchers to acquire agricultural land or depreciable agricultural property by creating a vehicle that allows lenders to make much needed lower interest rate loans available to qualified borrowers.

The program has been slow in being implemented, primarily because of the need to wait for congressional action to clarify the status of industrial revenue development bonds. The situation was finally resolved and the program is now underway, but with a somewhat modified set of regulations.

Under the current guidelines, a beginning farmer can borrow up to \$250,000 for land and another \$250,000 for equipment. Qualifying lenders will be granted municipal bond tax-exempt status that makes it attractive for them to loan money at reduced interest rates.

The lenders assume the loan risks. Currently, 45 lenders have announced their intent to participate in the program, while hundreds of potential borrowers have made inquiries.

Agricultural Marketing

In an effort to better develop local, state, national and foreign agricultural markets, an agricultural marketing program was initiated in 1983. The program is designed to help reduce marketing costs by helping both producer and industry groups find ways to more efficiently market their products. In addition, the program is intended to aid in determining problems that marketing inefficiencies and unnecessary restrictions create. Ultimately, the program expects to develop new and improved systems of marketing, which will result in a more stable and improved profit picture for the agricultural producer and marketer.

The agricultural marketing program is pursuing these objectives in a variety of ways. The Beef Processing Facility Feasibility Study exemplifies one such approach. Its purpose is to determine whether products produced by beef processing facilities located in Montana could successfully compete with existing facilities located outside the state in supplying domestic and foreign demand.

Another function performed by the program involves supplying information to individuals and businesses involved in Montana agriculture and to foreign buyers interested in Montana products. For firms new to exporting, the program offers information on market potential of their products, methods of exporting and trade restrictions. For exporting firms, assistance is provided in looking at new products or different markets for existing products.

Another approach involves presenting Montana agricultural products to potential buyers at domestic and foreign trade shows. The program works with and coordinates the participation of Montana firms in these shows, which allows suppliers to take advantage of cost-effective means of presenting their products to potential buyers.

Finally, the marketing program has initiated and will continue to foster a variety of marketing surveys which will identify the potential for increasing exports of selected products to specific foreign markets. These studies include a review of available information concerning restrictions and obligations in gaining access to new markets.

NEW IDEAS

Recognizing that a program is only as good as its capacity for growth and change, the 1983 Legislature authorized under Build Montana two advisory councils whose business is the development of new ideas for economic growth. In keeping with the original development of Build Montana, both groups — the Advisory Council on Science and Technology and the Governor's Council on Economic Development — have relied heavily on the voluntary involvement of well over a hundred Montanans dedicated to a healthy, diversified state economy. Here are the results of their work over the past two years.



Advisory Council on Science and Technology

At the time the Council on Science and Technology was organized, Montana and the nation were witnessing dramatic structural changes in traditional industries. Agriculture was in the midst of a downward spiral caused by high interest rates, low prices and deteriorating markets. The timber industry was in a painful transition caused by a depressed housing market, a shift in timber harvesting to the southeastern United States, Canadian competition, high transportation costs and the impacts of federal timber policies. International competition, changes in demand and new technologies in hardrock mining and smelting forced the closure of the Anaconda Company smelters and reduced metal output. Oil and coal development were off due to soft markets.

The Council studied these problems in a way that had never been done in Montana, and that is with an eye toward future economies based on technological development. After a thorough evaluation of the state's economic situation, it is the view of the Council that revitalization of traditional industries through the use of technological advances, together with the development, expansion and attraction of advanced technology firms, presents a major opportunity for new jobs in Montana and for a more diverse and growing economy.

In the course of its study, the Council reached out across Montana for expertise that was put to work on nine informal subcommittees: Agriculture Technology; Biotechnology;

Computers, Electronics and Materials Science; Energy and Energy Conservation; Financing and Commercialization of Research and Development (R&D); Forestry Technology; Information Dissemination; Mineral Technology and Technical Education.

Based on the findings of these subcommittees, the Council has concluded that shared public and private sector investment to stimulate scientific investigation and technology use and development represents a significant opportunity for Montana business to become more productive and competitive and to make Montana more attractive for the start-up and expansion of advanced technology firms.

The Council believes that a course of action should be undertaken immediately to revitalize and diversify the state's traditional strengths in agriculture, minerals, energy, forest products and small manufacturing, as well as to encourage economic growth in the emerging fields of biotechnology, electronics and computer sciences, communications and information sciences, and materials science.

For a detailed report on the findings and recommendations of the Advisory Council on Science and Technology, see the separate report that has been submitted by the Council to the 1985 Legislature.

Governor's Council on Economic Development

The job of this Council is to weigh all sectors of the Montana economy and design recommendations for economic development that will benefit the state as a whole. The Council represents a wide range of interests, including natural resources, small business, tourism, agriculture, education, conservation, public interest, financial, professional and organized labor.

In its first biennium, the Council chose to address the following issues: business taxation; agriculture; transportation; business assistance; tourism and natural resources. The Council sponsored three major research projects: 1) an agricultural debt survey that measures, for the first time, how the national farm crisis is affecting Montana farmers, ranchers and lenders; 2) an economic impact study of tourism, which shows that during the recent recession, tourism was one of two basic industries in Montana that experienced growth in terms of expenditures, labor income and employment; and 3) a coal marketing study which addresses the impacts of severance taxes, reclamation laws and federal air pollution legislation on Montana's coal industry.

During the course of its study, the Council heard from hundreds of Montanans and responded with several recommendations. For a complete report on the findings and recommendations of the Council on Economic Development, see the Council's final report, which has been submitted to the Legislature.

MONTANA'S BUSINESS CLIMATE: IT'S IMPROVING

Montana's business climate has been the subject of debate for decades. Some argue the state doesn't do enough for business. Others say it is not the state's role to nurture an environment that's right for business. It is doubtful the debate will end very soon because the issues surrounding business climate are highly subjective.

From an objective standpoint, however, Montana's business climate is improving. Each year, the states are ranked by two major business climate analysts — the *Alexander Grant Survey of Manufacturing Business Climates* and the *INC. Magazine Survey of Small Business Climates*. The Alexander Grant survey is conducted, for the most part, for large manufacturers; the INC. survey deals almost exclusively with small business issues. Though each has a different audience, Montana has shown steady improvement in both surveys over the past four years.

	Alexander Grant	INC.
1980	33rd	
1981	28th	Letter Grade "B"
1982	25th	27th
1983	20th	14th
1984		18th

Major factors contributing to Montana's rise in the Alexander Grant survey are: The ability of our state and local governments to balance their budgets (Montana ranks #1 nationwide); low public debt (#9); low energy costs (#3); and a high proportion of high school-education adults (#6). Most significant is that for two consecutive years, Alexander Grant rated Montana #1 nationwide in the ability of our state and local governments to match expenditures with revenues. We balance our books in Montana, and it has been interpreted as an important commitment to the business community.

Montana made its biggest jump in the *INC.* ratings in 1983 — from 27th to 14th — shortly after the implementation of a number of business assistance and development finance programs that were enacted under Build Montana. *INC.* measures the states in five categories: capital resources, labor, taxes, state support and business activity. Capital resources and state support are weighted more heavily than the other three categories because they are considered more critical to small business.

Based on new programs authorized by the 1983 Legislature, Montana ranked #11 in the capital category and was singled out for recognition of its development finance programs: "Montana is making its own attempts to bankroll economic diversification away from a heavy dependency on coal mining and lumber," *INC.* stated. "Under a newly adopted 'Build Montana' package, small businesses can now apply for long-term, fixed-rate debt. The state has also authorized equity capital investments in small companies."

In the state support category, Montana ranked #9 nationally, primarily because of efforts and programs like the State's Small Business Advocate, Business Development Assistance, the Governor's Advisory Council on Small Business, the 1983 Legislature's Select Committee on Economic Development and small business procurement set-asides.

Even though Montana's *INC.* rating slipped four notches in 1984 — from 14th to 18th — Montana still ranks higher than any of our neighboring states.

INC. Ratings	1982	1983	1984
Montana	27th	14th	18th
Wyoming	25th	44th	48th
South Dakota	41st	43rd	44th
North Dakota	14th	19th	27th
Idaho	32nd	47th	37th



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